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# **The Paul Revere Corporation**

*Formerly* THE MASSACHUSETTS PROTECTIVE ASSOCIATION, INCORPORATED

**1966 Report**







In this report are included for the year 1966 the results of The Paul Revere Corporation and its majority owned subsidiaries—The Paul Revere Life Insurance Company, The Paul Revere Variable Annuity Insurance Company, Coastline Financial Corporation, The Ontario Loan and Debenture Company, and other subsidiaries.

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## To Our Shareholders

Since the beginning of 1966, more significant progress and change have occurred at Paul Revere than ever before in the Company's history.

The most fundamental change took place when The Massachusetts Protective Association, Incorporated stockholders voted to change the business purposes of the Association from those of an insurance company to those of a general business corporation. The aim was to permit use of financial resources more broadly. Accordingly, as of the beginning of January 1, 1967, the insurance business was transferred to its subsidiary, The Paul Revere Life Insurance Company, in return for 120,000 shares of the latter's stock. Securities valued at approximately \$17,000,000 were transferred to Paul Revere Life along with policy reserve and other liabilities in the same amount related to the transferred insurance. At the same time, The Massachusetts Protective Association, Incorporated changed its name to The Paul Revere Corporation.

Reflecting its program of investment action, the Corporation has broadened its interests in affiliated companies. On June 29, its subsidiary, Coastline Financial Corporation, acquired Phelan Finance Corp., an Atlanta-headquartered personal finance company. In December, 1966 and January, 1967, The Paul Revere Corporation purchased the minority interest in FAR, Inc., of which the Corporation previously held a 58.7% interest. Thompson Wire Corporation, of Boston, is a wholly-owned subsidiary of FAR, Inc.

Additionally, the Corporation made an offer on February 3, 1967 to purchase 4,000,000 shares of common stock of Avco Corporation. The offer terminated February 17, 1967 with tenders of 9,206,541 Avco shares. Funds for the 4,000,000 shares were raised in part by liquidation of marketable securities and in part by a bank loan.

The Corporation is also asking its stockholders at the March 30, 1967 annual meeting to authorize issuance of additional shares of stock to be exchanged share for share for stock of The Paul Revere Life Insurance Company. Its purpose is to acquire substantially all of The Paul Revere Life 13.04% minority interest and it is proposed to act only if its holding of Paul Revere Life can be made to equal or exceed 98%.

Results of operations of majority-owned affiliates are reflected in the income statement of The Paul Revere Corporation which follows. This statement has been adjusted on a pro forma basis to reflect the changes made as of the beginning of January 1, 1967, i.e. with all insurance liabilities regarded as those of the subsidiary, Paul Revere Life, and with ownership of Paul Revere Life reflecting the transfer of January 1, 1967 (but not the presently proposed acquisition of minority shares), but excluding operating results of less-than-50% owned affiliates (both those held at December 31, 1966 and Avco Corp.). Related adjustments have been made to the statement of financial condition at December 31, 1966.

The Companies' insurance operations achieved record-breaking gains. Earnings from insurance functions—as distinguished from investment income beyond requirements to support insurance reserves—expanded 12%.

Sales rose 10%—to \$13,260,000 in new annualized premiums from 1965's \$12,062,000. Individual health sales increased 11% to \$7,045,000. Individual life sales were \$3,848,000, a 10% advance. Group sales of \$2,367,000 were 6% higher. Each category reached an all-time high.



Total premium income rose 3% to \$89,252,000 and the three major components all grew to record amounts. Individual health premiums added 3% to \$41,559,000. Individual life premiums increased 8% to \$21,665,000. Group insurance premiums were 5% higher at \$19,705,000. Only fixed-dollar annuity considerations were below 1965. Individual annuities of \$2,968,000 were down 12% and group annuities of \$3,355,000 were 15% lower.

The new Paul Revere Variable Annuity Insurance Company was licensed in 16 states by the end of the year. During the year, the parent Corporation invested an additional \$1,600,000 in this promising venture to comply with admission requirements of certain states. Only a limited selling program occurred during 1966 since the necessary legal qualifications had to be accomplished first.

Investment income expansion of The Paul Revere Corporation and of Paul Revere Life (exclusive of the special transactions described above) was a highlight of the year. Combined investment income above allocations to provide the required support for insurance reserves grew 14%.

Financial statements of majority-owned subsidiary holdings with material assets are set forth on the pages following those of the insurance affiliates.

Coastline Financial Corporation and its subsidiaries, apart from its new subsidiary, Phelan Finance Corp., experienced a profitable year, although income before appropriations for general reserves of \$252,000 was \$366,000 below 1965's record. Asset growth continued, however, with a 6% rise to a new high. During the year, the parent corporation invested an additional \$1,016,000 in Coastline which in turn reinvested this sum in Phelan Finance Corp.

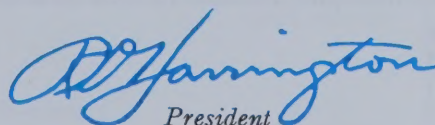
Phelan Finance Corp. was acquired at mid-year after major write-downs of its receivables had produced large losses. However, operations under newly installed management are expected to be profitable.

Ontario Loan and Debenture Company, Limited of London, Ontario enjoyed its most profitable year as a member of the Paul Revere group. Net income before appropriations for general reserves rose 8% and was 39% above the level of 1963, the year of acquisition. Assets increased 6% during the year to over \$76,000,000.

The largest profit improvement among majority-owned subsidiaries occurred at FAR, Inc. whose 1966 consolidated net income was at a rate approximately two-thirds higher than was achieved during 1965 after acquisition in the middle of that year.

The record of achievement in expansion of sales, assets and profits during 1966, as well as the major developments in the areas of corporate reorganization and acquisitions, could not have come about without the highly effective actions of the many members of our organization throughout the United States and Canada. It is my privilege to recognize their excellent work in what has been a period of genuine accomplishment.

March 10, 1967

  
President

# The Paul Revere Corporation

(formerly The Massachusetts Protective Association, Incorporated)

## BALANCE SHEET

(Unaudited)

### ASSETS

December 31,

	1966	1965
Investments in stocks of majority owned subsidiaries (Note 1):		
The Paul Revere Life Insurance Company . . . . .	\$100,745,455	\$ 99,435,388
The Paul Revere Variable Annuity Insurance Company . . . . .	2,805,746	1,299,195
Coastline Financial Corporation . . . . .	5,416,364	4,408,125
The Ontario Loan and Debenture Company . . . . .	10,492,847	9,926,620
Other subsidiaries (including FAR, Inc.) (Note 3) . . . . .	4,159,929	2,033,031
	<u>123,620,341</u>	<u>117,102,359</u>
Securities of other corporations, at cost (market value \$66,931,147 in 1966; \$82,783,823 in 1965) (Notes 1, 2 and 7) . . . . .	43,930,238	48,590,548
Bonds and notes, at cost approximating market (Note 7):		
U.S. government, governmental agencies and political subdivisions . . . . .	4,637,764	5,989,334
Corporate . . . . .	1,752,870	1,161,839
Notes receivable—subsidiary company . . . . .	10,225,000	9,725,000
Cash . . . . .	5,621,248	4,146,023
Other assets . . . . .	447,067	277,477
Excess of investments in majority-owned subsidiaries over net assets at dates of acquisition (Note 4) . . . . .	6,868,150	4,360,010
	<u>\$197,102,678</u>	<u>\$191,352,590</u>

### LIABILITIES, CAPITAL STOCK AND SURPLUS

Notes payable to banks . . . . .	\$ 8,015,500	\$ 9,037,847
Federal income tax (Note 2) . . . . .	3,620,490	3,745,845
Other liabilities . . . . .	70,657	224,045
	<u>11,706,647</u>	<u>13,007,737</u>
Contingencies (Note 6)		
Capital stock and surplus (Notes 1 and 2):		
Capital stock, \$5 par value; 2,400,000 shares authorized, issued and outstanding . . . . .	12,000,000	12,000,000
Capital surplus . . . . .	1,046,000	—
Surplus representing equity in undistributed earnings of subsidiaries . . . . .	99,106,462	97,482,633
Earned surplus . . . . .	73,243,569	68,862,220
	<u>185,396,031</u>	<u>178,344,853</u>
	<u>\$197,102,678</u>	<u>\$191,352,590</u>

See accompanying notes.



# The Paul Revere Corporation

(formerly The Massachusetts Protective Association, Incorporated)

## STATEMENT OF INCOME

(Unaudited)

	Year Ended December 31,	
	1966	1965
Income:		
Dividends and interest from majority-owned subsidiaries . . . . .	\$ 2,268,747	\$ 1,707,711
Dividends from affiliates . . . . .	272,051	155,954
Other dividends and interest . . . . .	1,748,720	1,809,538
Total income . . . . .	4,289,518	3,673,203
Expenses:		
Interest expense . . . . .	529,896	289,452
Taxes, other than federal income tax . . . . .	62,273	23,411
Other . . . . .	149,970	154,787
Total expenses . . . . .	742,139	467,650
	3,547,379	3,205,553
Net capital gains less taxes applicable thereto, (\$1,251,877 in 1966; \$1,229,942 in 1965) . . . . .	3,163,694	4,158,650
	6,711,073	7,364,203
Net income of health insurance business transferred to subsidiary company (Notes 2 and 5) . . . . .	1,743,268	1,842,439
Income before equity in undistributed net income of majority-owned sub- sidiaries . . . . .	8,454,341	9,206,642
Equity in undistributed net income of majority-owned subsidiaries for the year (including capital gains) in excess of dividends received:		
Insurance subsidiaries . . . . .	9,267,665	8,602,464
Finance and savings and loan subsidiaries . . . . .	686,894	926,186
Other subsidiaries (including FAR, Inc.) . . . . .	930,298	273,031
	10,884,857	9,801,681
Net income (Note 1) . . . . .	\$ 19,339,198	\$ 19,008,323
Net income per share, based upon 2,400,000 shares outstanding . . . . .	\$8.06	\$7.92

See accompanying notes.

# The Paul Revere Corporation

(formerly The Massachusetts Protective Association, Incorporated)

## STATEMENT OF EARNED SURPLUS

(Unaudited)

	Year Ended December 31,	
	1966	1965
Balance at beginning of year . . . . .	\$ 68,862,220	\$ 63,115,294
Add:		
Income before equity in undistributed net income of majority-owned subsidiaries . . . . .	8,454,341	9,206,642
Net gain from non-admitted assets applicable to health insurance business transferred to subsidiary (Note 2) . . . . .	55,008	20,284
	<u>77,371,569</u>	<u>72,342,220</u>
Deduct—cash dividends paid (\$1.72 per share in 1966; \$1.45 per share in 1965) . . . . .	<u>4,128,000</u>	<u>3,480,000</u>
Balance at end of year . . . . .	<u>\$ 73,243,569</u>	<u>\$ 68,862,220</u>

## STATEMENT OF CHANGES IN EQUITY IN UNDISTRIBUTED EARNINGS OF MAJORITY-OWNED SUBSIDIARIES\*

(Unaudited)

Balance at beginning of year . . . . .	\$97,482,633	\$77,288,653
Add Corporation's equity in net income of subsidiaries . . . . .	12,584,197	11,244,685
Less dividends received from subsidiaries . . . . .	1,699,340	1,443,004
	<u>10,884,857</u>	<u>9,801,681</u>
	108,367,490	87,090,334
Add (deduct)—Adjustments for changes reflected directly in surplus accounts of insurance subsidiaries:		
Unrealized increase (decline) in value of investments . . . . .	(9,157,840)	10,415,566
Net loss from non-admitted assets . . . . .	(103,188)	(22,067)
Organization expenses charged to capital surplus of subsidiary . . . . .	—	(1,200)
	<u>(9,261,028)</u>	<u>10,392,299</u>
Balance at end of year . . . . .	<u>\$ 99,106,462</u>	<u>\$ 97,482,633</u>

\*Includes other changes in surplus of insurance subsidiaries.

See accompanying notes.



(formerly The Massachusetts Protective Association, Incorporated)

## SECURITIES OF OTHER CORPORATIONS

December 31, 1966

(Unaudited)

	<i>Cost</i>	<i>Market Value</i>		<i>Cost</i>	<i>Market Value</i>
COMMON STOCKS					
<i>Affiliated Companies</i>					
Allied Innkeepers Limited.....	\$ 5,500	\$ 5,500	International Rectifier Corp.....	\$ 860,754	\$ 629,400
Bradley and Vrooman Co.....	213,750	213,750	Litton Industries, Inc.....	199,308	3,723,442
Continental Computer Associates, Inc., Class A.....	250,000	250,000	Lockheed Aircraft Corp.....	221,597	303,600
Continental Computer Associates, Inc., Class B.....	250,000	250,000	Mack Trucks, Inc.....	957,909	651,000
Credit Alliance Corp.....	250,000	250,000	MCA Inc.....	1,152,819	700,000
North American Incinerator Corp...	250,000	0	McDonald's Corp.....	117	2,940,000
Peoples National Fund, Inc.....	1,328,300	1,928,300	National Can Corp.....	571,064	621,920
Stern Metals Corp.....	350,000	2,660,000	New York Central Railroad Co...	347,520	690,000
	2,897,550	5,557,550	North American Aviation, Inc.....	170,523	161,700
<i>Other</i>					
Aerosol Techniques, Inc.....	341,750	212,223	Pabst Brewing Co.....	497,125	900,000
Altamil Corp.....	419,122	400,000	Pennsylvania Railroad Co.....	337,583	530,000
American Zinc Co.....	521,857	300,000	Recognition Equipment Inc.....	180,000	2,295,000
APL Corp.....	398,625	622,500	Rosenthal, Inc.....	750,000	750,000
Automatic Retailers of America, Inc.....	640,000	1,620,000	Sanders Associates, Inc.....	750,745	1,540,710
"Automatic" Sprinkler Corp. of America.....	778,709	910,000	Taft Broadcasting Co.....	263,169	693,000
Beauty Counselors, Inc.....	323,534	165,696	Texas Gulf Sulphur Co.....	956,209	4,240,000
Brown Co.....	611,118	510,000	United Aircraft Corp.....	1,088,804	984,000
Calgon Corp.....	508,802	1,035,000	United Fruit Co.....	1,092,307	810,000
Cerro Corp.....	865,834	917,831	United Life & Accident Insurance Co.....	1,002,467	469,300
Columbia Broadcasting System, Inc.	894,293	1,264,800	U.S. Smelting Refining & Mining Co.....	795,053	1,895,200
Dun & Bradstreet, Inc.....	168,400	1,280,000	Variable Annuity Life Insurance Co. of America.....	916,976	792,000
Eastman Kodak Co.....	1,218,489	1,290,000	Villager, Inc.....	384,126	300,000
Electrolux Corp.....	714,788	600,000	Western Union Telegraph Co.....	661,560	740,000
Filtrol Corp.....	959,869	840,000	Wheeling Steel Corp.....	274,217	160,000
Freeport Sulphur Co.....	705,918	1,520,000	Worcester County National Bank...	391,740	710,875
General Dynamics Corp.....	630,535	720,000	Zayre Corp.....	650,367	784,000
General Instrument Corp.....	759,727	1,438,200			
Georgia-Pacific Corp.....	500,328	741,731	Miscellaneous Stocks.....	233,795	370,645
Gerber Scientific Instrument Co...	225,000	240,000		29,777,198	50,299,489
Grumman Aircraft Engineering Corp.	282,230	530,400			
Gulf & Western Industries, Inc.....	1,105,045	1,020,000		<i>Cost</i>	<i>"Statement Value"</i>
International Business Machines Corp.....	495,371	2,735,316	PREFERRED STOCKS		
			All-State Credit Corp., 7%.....	\$ 337,170	\$ 350,000
			American Security Investment Co., 7%.....	500,000	500,000
			Atlas Financial Corp., \$5.75.....	375,000	375,000
			Atlee Corp., 5%.....	250,000	200,000

*See accompanying notes.*



# The Paul Revere Corporation

(formerly The Massachusetts Protective Association, Incorporated)

## SECURITIES OF OTHER CORPORATIONS

December 31, 1966

(Unaudited)

(continued)

	Cost	"Statement Value"
<b>PREFERRED STOCKS</b>		
Ben Gordon Finance Co., Inc., 6¾%	\$200,000	\$200,000
Boise Cascade Corp., \$1.40.....	731,797	720,000
Century Acceptance Corp., 6½%..	500,000	500,000
City Finance Co., Inc., \$6.50.....	280,000	280,000
Colorado Interstate Gas Co., 5.35%	600,000	564,000
Commercial Acceptance Corp., 7½%.....	250,000	250,000
Continental Finance Corp. of America, 7%.....	300,000	300,000
Dixie Finance Co., Inc., 6¼%.....	400,000	400,000
Empire District Electric Co., 4¾%	200,000	158,000
Investors Loan Corp., \$6.00.....	400,000	400,000
Kaiser Aluminum & Chemical Corp., 4¾%.....	415,752	382,200
Kaiser Steel Corp., 5¾%.....	732,500	750,000
Kidde, Walter & Co., Inc., \$2.20...	480,000	606,000
Rosenthal & Rosenthal, Inc., 6¼%	500,000	485,000
Rosenthal & Rosenthal, Inc., 6½%	450,000	450,000
Schenectady Discount Corp., 6%...	500,000	500,000
Southern California Edison Co., 4.78%.....	408,800	336,000
James Talcott, Inc., 5¼%.....	423,100	423,100
Texas Consumer Finance Corp., 6¾%.....	500,000	500,000
Texas Consumer Finance Corp., 5%.....	160,000	153,600
Trailco Manufacturing & Sales Co., 7%.....	250,000	250,000
Truck Trailer Acceptance Corp., 7%	200,000	200,000
United Air Lines, Inc., 5½%.....	391,071	393,208
United Finance Corp., 7½%.....	300,000	300,000
White Consolidated Industries, Inc., 5½%.....	496,250	444,000
Miscellaneous Stocks.....	224,050	204,000
	11,755,490	11,574,108
	44,430,238	67,431,147
Less: Provision for Loss on Investments.....	500,000	500,000
	<u>\$ 43,930,238</u>	<u>\$ 66,931,147</u>

## NOTES TO FINANCIAL STATEMENTS

December 31, 1966

(Unaudited)

### 1. Basis of presentation

At the beginning of January 1, 1967, the Association changed its business purpose from that of an insurance company to that of a general business corporation. In the accompanying financial statements, investments in majority owned subsidiaries previously carried at cost are stated now at the Company's equity in the net assets of such subsidiaries, and other investments, previously carried at market value, are stated at cost. The change resulted in revising the Company's balance sheet at December 31, 1965 by increasing the carrying value of investments by approximately \$63,300,000, thereby increasing previously reported surplus by that amount. In addition, net income from combined operations for 1965 has been revised from \$11,041,000 as previously reported to \$19,008,000 as a result of now including equity in net income of subsidiaries and capital gains in the statement of income of the Company. See Note 1 to the financial statements of Paul Revere Life for a description of the differences between accounting authorized by the Division of Insurance and generally accepted accounting principles. The financial statements of The Paul Revere Corporation are pro forma financial statements giving effect to the foregoing.

### 2. Transfer of health insurance business to subsidiary

In connection with the change from an insurance company to that of a general business corporation, the Company transferred its insurance business, valued at approximately \$10,354,000 by an independent consulting actuary, to its majority owned subsidiary, The Paul Revere Life Insurance Company, in exchange for 120,000 shares of newly issued stock of such company. In addition, investments with a market value of approximately \$17,000,000 were transferred to Paul Revere Life to cover certain policy reserves and other insurance liabilities assumed by the subsidiary. Such investments and related reserves have been excluded from the financial statements of Paul Revere Corporation and included in the financial statements of Paul Revere Life on a retroactive basis at December 31, 1966 and 1965. See Note 5 for a summary of the health insurance operations for the two years ended December 31, 1966.



# The Paul Revere Corporation

(formerly The Massachusetts Protective Association, Incorporated)

## NOTES TO FINANCIAL STATEMENTS

December 31, 1966

(Unaudited)

(continued)

Since the transaction was between related parties, no gain or loss has been recognized as a result of the transfer. The Company's increase in its equity in the net assets of Paul Revere Life resulting from the transaction, amounting to \$1,046,000, has been credited to capital surplus.

The transfer of the insurance business constituted a tax-free exchange for federal income tax purposes. However, the release of the policyholders' surplus account substantially accumulated prior to 1965, which occurred at the time of the transfer, may result in federal income taxes of \$2,798,000 and provision for such amount has been retroactively made by a charge to surplus as at January 1, 1965.

### 3. Acquisitions

During 1965 and 1966, the Company acquired 68.67% of the outstanding common stock of FAR, Inc. for cash. In January 1967, the Company acquired the remaining outstanding stock of such company. In connection with the most recent acquisition, the Company agreed to pay an additional contingent price per share based upon net earnings of FAR, Inc. for 1967 and 1968, such contingent price not to exceed \$2,500,000.

### 4. Excess of investments in subsidiaries over net assets at dates of acquisition

The Company presently does not intend to amortize such excess cost since, in its opinion, the investment value has not diminished.

### 5. Net income of health insurance business transferred to subsidiary company

A condensed summary of the results of operations of the health insurance business, including investment income on a pro forma basis attributable to investments transferred to Paul Revere Life, for the two years ended December 31, 1966 is as follows:

	Year ended December 31,	
	1966	1965
Premium income . . . . .	\$11,657,845	\$11,907,993
Dividends and interest income . .	904,817	904,817
	12,562,662	12,812,810
Claims and other expenses:		
Benefits under health policies . .	6,060,299	6,260,905
Commissions on premiums . . . .	1,400,842	1,590,243
Increase (decrease) in health reserves . . . . .	87,228	(61,753)
Salaries and wages . . . . .	767,669	786,792
Taxes, other than federal income tax . . . . .	210,905	337,337
Other . . . . .	792,451	826,847
Total . . . . .	9,319,394	9,740,371
Income before federal income tax	3,243,268	3,072,439
Provision for federal income tax .	1,500,000	1,230,000
Net income . . . . .	\$ 1,743,268	\$ 1,842,439

### 6. Contingencies

The Corporation ceased to be an insurance corporation at the beginning of January 1, 1967 as provided in Section 44, Chapter 175 of the Massachusetts General Law which provides that such a corporation continues liable under its original insurance contracts. Such a corporation can be called upon to put up a contingency fund to assure its ability to meet this obligation. However, in the reinsurance and assumption agreement between the Corporation and The Paul Revere Life Insurance Company effective at the beginning of January 1, 1967, the latter company agreed to establish any contingency fund that might be required to assume a full discharge of all the insurance contract liabilities.

### 7. Subsequent event

See the President's letter relating to the purchase of 4,000,000 shares of Avco Corporation common stock. In connection with this purchase the Company sold, at a gain, substantially all of its investments in securities of other corporations, bonds and notes and borrowed \$65,000,000 from a bank. The aforesaid loan bears interest at 5¾% and is payable on June 30, 1967.

In connection with this bank loan, the Company agreed that it will not incur indebtedness to commercial banks in excess of \$10,000,000.

## BALANCE SHEET

(Unaudited)

	<i>December 31,</i>	
	<i>1966</i>	<i>1965</i>
<b>ASSETS</b>		
Securities (Notes 1 and 2):		
Bonds and notes . . . . .	\$127,418,515	\$119,202,263
Preferred stocks . . . . .	29,305,562	24,489,710
Common stocks . . . . .	43,994,356	57,434,135
	<u>200,718,433</u>	<u>201,126,108</u>
Loans:		
Mortgage loans, less discounts (1966—\$9,888,468; 1965—\$9,297,897) (Note 1) . . . . .	123,999,455	115,695,323
Policy loans . . . . .	9,950,494	8,460,041
	<u>133,949,949</u>	<u>124,155,364</u>
Real estate, at cost, less allowance for depreciation (1966—\$1,712,435; 1965—\$1,498,888):		
Home office properties . . . . .	4,661,694	4,611,768
Investment properties . . . . .	4,975,571	142,459
	<u>9,637,265</u>	<u>4,754,227</u>
Other investments . . . . .	1,821,660	—
Cash . . . . .	6,928,526	6,073,279
Premiums deferred and uncollected . . . . .	7,406,460	6,937,822
Investment income due and accrued . . . . .	3,082,545	2,712,810
	<u>\$363,544,838</u>	<u>\$345,759,610</u>

*See accompanying notes.*



## BALANCE SHEET

(Unaudited)

	December 31,	
	1966	1965
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Policy reserves for future benefits (Note 1) . . . . .	\$220,260,597	\$204,826,498
Policy claims . . . . .	9,343,467	9,210,935
Advance premiums . . . . .	1,251,468	1,577,529
Funds on deposit and experience rating refund credits . . . . .	6,604,771	5,070,379
Taxes, including federal income taxes (1966—\$2,559,540; 1965—\$3,591,423) . . . . .	4,109,423	5,312,954
Notes payable to banks . . . . .	3,015,500	1,004,222
Other liabilities . . . . .	2,285,815	2,204,978
	<u>246,871,041</u>	<u>229,207,495</u>
Contingencies (Note 4)		
Securities valuation reserve (Note 1) . . . . .	19,413,004	24,210,132
Stockholders' equity (Notes 1 and 3):		
Capital stock, \$5 par value; 1,960,000 (1965—1,840,000) shares authorized, issued and outstanding . . . . .	9,800,000	9,200,000
Surplus:		
Appropriated reserves:		
Group insurance . . . . .	1,219,156	916,489
Mortgages and securities . . . . .	26,065,000	26,900,000
	<u>27,284,156</u>	<u>27,816,489</u>
Unassigned surplus . . . . .	60,176,637	55,325,494
Total surplus . . . . .	<u>87,460,793</u>	<u>83,141,983</u>
Total stockholders' equity . . . . .	<u>97,260,793</u>	<u>92,341,983</u>
	<u>\$363,544,838</u>	<u>\$345,759,610</u>

See accompanying notes.

## STATEMENT OF INCOME

(Unaudited)

	<i>Year ended December 31,</i>	
	<i>1966</i>	<i>1965</i>
Premiums and other insurance income . . . . .	\$ 78,269,305	\$ 75,432,054
Investment income:		
Interest . . . . .	13,506,974	11,960,985
Dividends . . . . .	2,025,729	1,830,505
Real estate . . . . .	259,598	238,835
	<u>15,792,301</u>	<u>14,030,325</u>
Less investment expenses . . . . .	857,655	862,033
	<u>14,934,646</u>	<u>13,168,292</u>
	<u>93,203,951</u>	<u>88,600,346</u>
Benefits and reserve increases:		
Death and other benefits . . . . .	41,682,104	41,008,916
Increase in reserves for future benefits . . . . .	17,075,537	16,865,851
	<u>58,757,641</u>	<u>57,874,767</u>
Expenses:		
Commissions and agency expenses . . . . .	11,527,713	10,444,349
Salaries . . . . .	5,402,945	5,033,880
Taxes, licenses and fees . . . . .	1,917,918	1,861,260
Other expenses . . . . .	3,710,340	3,378,331
	<u>22,558,916</u>	<u>20,717,820</u>
	<u>81,316,557</u>	<u>78,592,587</u>
Income before federal income tax . . . . .	11,887,394	10,007,759
Provision for federal income tax (Note 3) . . . . .	3,400,000	2,942,000
Net income . . . . .	<u>8,487,394</u>	<u>7,065,759</u>
Net realized capital gains, less taxes applicable thereto (1966—\$1,350,000; 1965—\$1,382,000) . . . . .	4,202,560	4,566,469
Net income and realized capital gains . . . . .	<u>\$ 12,689,954</u>	<u>\$ 11,632,228</u>

See accompanying notes.



# Insurance Company

## STATEMENT OF SURPLUS

(Unaudited)

	<i>Year ended December 31,</i>	
	<i>1966</i>	<i>1965</i>
Unassigned surplus:		
Balance at beginning of year . . . . .	\$ 55,325,494	\$ 49,722,866
Net income and realized capital gains for the year . . . . .	12,689,954	11,632,228
	<u>68,015,448</u>	<u>61,355,094</u>
Other changes—add (deduct):		
Dividends paid (per share 1966—\$1.00; 1965—\$.84) . . . . .	( 1,840,000)	( 1,545,600)
Decrease (increase) in securities fluctuation reserve . . . . .	4,797,127	(10,355,469)
Increase (decrease) in unrealized appreciation of investments . . . . .	(10,634,657)	12,050,161
Net (increase) decrease in non-admitted assets . . . . .	( 93,614)	7,887
Decrease (increase) in appropriated reserves . . . . .	532,333	( 6,186,579)
Amount capitalized relating to 120,000 shares issued in exchange for health insurance business (Note 1) . . . . .	(600,000)	—
	<u>( 7,838,811)</u>	<u>( 6,029,600)</u>
Balance at end of year . . . . .	<u>60,176,637</u>	<u>55,325,494</u>
Appropriated reserves:		
Group insurance:		
Balance at beginning of year . . . . .	916,489	829,910
Appropriated from unassigned surplus . . . . .	302,667	86,579
Balance at end of year . . . . .	<u>1,219,156</u>	<u>916,489</u>
Mortgages and securities:		
Balance at beginning of year . . . . .	26,900,000	20,800,000
Appropriated (to) from unassigned surplus . . . . .	( 835,000)	6,100,000
Balance at end of year . . . . .	<u>26,065,000</u>	<u>26,900,000</u>
Total surplus . . . . .	<u>\$ 87,460,793</u>	<u>\$ 83,141,983</u>

See accompanying notes.

## Summary of Investments in Securities

December 31, 1966

(Unaudited)

	<i>Cost(1)</i>	<i>Market Value(2)</i>
<b>BONDS AND NOTES:</b>		
Government . . . . .	\$ 1,828,239	\$ 1,671,321
States, territories and possessions . . . . .	3,164,738	3,164,738
Political subdivisions of states, territories and possessions . . . . .	13,377,528	13,648,546
Special revenue and special assessment obligations and all non-guaranteed obligations of agencies and authorities of governments and their political subdivisions . . . . .	13,592,263	13,464,860
Railroads . . . . .	1,932,385	2,008,500
Public utilities . . . . .	1,973,830	1,980,931
Industrial and miscellaneous		
Majority-owned subsidiaries of The Paul Revere Corporation . . . . .	4,279,000	4,279,000
Other affiliates of The Paul Revere Corporation . . . . .	6,442,718	6,442,718
Other . . . . .	80,827,814	80,394,504
	<u>127,418,515</u>	<u>127,055,118</u>
<b>PREFERRED STOCKS:</b>		
Public utilities . . . . .	3,689,850	3,689,850
Banks, trust and insurance companies . . . . .	600,000	600,000
Industrial and miscellaneous		
Majority-owned subsidiaries of The Paul Revere Corporation . . . . .	2,270,700	2,270,700
Other affiliates of The Paul Revere Corporation . . . . .	3,850,000	3,850,000
Other . . . . .	18,859,472	18,895,012
	<u>29,270,022</u>	<u>29,305,562</u>
<b>COMMON STOCKS:</b>		
Railroad . . . . .	684,964	1,220,000
Public utilities . . . . .	1,793,134	3,644,000
Banks, trust and insurance companies . . . . .	378,467	710,875
Industrial and miscellaneous		
Affiliates of The Paul Revere Corporation . . . . .	582,533	1,196,831
Other . . . . .	24,088,855	37,222,650
	<u>27,527,953</u>	<u>43,994,356</u>
	<u>\$184,216,490</u>	<u>\$200,355,036</u>

(1) *Amortized or investment value in the case of bonds.*

(2) *"Statement value" in the case of preferred stocks.*



## NOTES TO FINANCIAL STATEMENTS

December 31, 1966

(Unaudited)

### 1. Basis of presentation

The accompanying financial statements have been prepared, except as to form, on the basis of requirements prescribed for annual statements filed with the Division of Insurance of the Commonwealth of Massachusetts. The accounting authorized by the Division of Insurance differs in certain respects from generally accepted accounting principles, as follows: (1) expenses incurred upon issuance of new policies are charged against income in the year incurred rather than amortized over the periods benefited, (2) certain non-admitted assets are excluded from the balance sheet, (3) security investments are carried in accordance with the basis prescribed by the National Association of Insurance Commissioners, (see Note 2), (4) the securities valuation reserve is classified as a liability rather than as appropriated surplus, (5) discounts on mortgage loans are reported as income upon retirement of the loans rather than accruing such discounts over the life of the loans, and (6) policy reserves for future benefits are based upon statutory mortality requirements which generally exceed anticipated mortality. No determination has been made of the effect of such differences on the accompanying financial statements.

See Note 2 to the financial statements of The Paul Revere Corporation for a description of the transfer of the health insurance business to the Company at the beginning of January 1, 1967. Since this transaction was between related parties, no cost was assigned to the insurance business transferred from the parent company in exchange for 120,000 shares of capital stock, and unassigned surplus amounting to \$600,000 was transferred to the Company's capital stock account. The accompanying financial statements also give pro forma effect to the transfer of assets, liabilities and reserves from The Paul Revere Corporation in accordance with the provisions of the reinsurance and assumption agreement effective January 1, 1967. See Note 6 to the financial statements of The Paul Revere Corporation.

The assets in the accompanying balance sheet are stated at admitted asset value. The term "admitted asset value" means the assets stated at values at which they are permitted to be reported to the Division of Insurance of the Commonwealth of Massachusetts for balance sheet purposes in the annual report in accordance with the rules and regulations of this regulatory authority. The term "non-admitted assets" means assets other than assets which are so permitted to be reported.

Non-admitted assets at December 31, 1966, deducted in arriving at admitted asset values shown in the accompanying balance sheet, amounted to \$2,608,308. Non-admitted assets charged to income immediately upon acquisition amounted to \$108,261 and \$158,267 for 1966 and 1965, respectively.

### 2. Security investments

Security investments are carried in the balance sheet at admitted asset values as prescribed by the National Association of Insurance Commissioners, which are principally amortized cost for bonds and notes, actual cost for preferred stocks and market value for common stocks.

### 3. Stockholders' equity

The holders of the Capital Stock are entitled to receive dividends when and as declared by the Board of Directors of the Company out of funds legally available therefor. Section 72 of Chapter 175 of the General Laws of Massachusetts restricts stock insurance companies to the payment of cash dividends not exceeding 10% of the capital stock in a year (or if dividends in any year are less than 10% the difference may be made up in subsequent years from surplus accumulations) out of their actual net surplus computed as required by law. However, larger dividends are permitted, as the directors consider prudent, out of the excess remaining after deducting from the assets certain securities and accounts in default, and all due and unpaid interest on any property of the Company.

At December 31, 1966, in accordance with provisions of the Internal Revenue Code, the Company had accumulated in unassigned surplus an aggregate "policyholders surplus account" in the amount of \$21,547,000. If the amounts accumulated as "policyholders surplus" became taxable to the Company, the resulting maximum tax liability would approximate \$10,343,000. Under present circumstances, the Company does not intend to effect any transactions or occurrences to cause the "policyholders surplus account" to become taxable.

The increase in the "policyholders surplus account" was \$3,580,000 and \$2,775,000, with an income tax effect of \$1,718,000 and \$1,332,000 for each of the years ended December 31, 1966 and 1965, respectively.

### 4. Contingent liabilities

As permitted under applicable state insurance regulations, the Company has reduced its policy reserves and claims to give appropriate recognition to risks reinsured with other companies. A contingency exists with respect to reinsurance ceded which might become a liability of the Company in the event the reinsurers are unable to meet the obligations assumed under reinsurance agreements.

At December 31, 1966, the aggregate amount of reinsurance ceded to other companies approximated \$27,625,000.

# The Paul Revere Variable

## STATEMENT OF ADMITTED ASSETS, LIABILITIES AND STOCKHOLDER'S INVESTMENT

(Unaudited)

	December 31,	
	1966	1965
<b>ASSETS</b>		
U.S. government securities at cost . . . . .	\$ 832,323	\$ 99,629
Common stocks at market . . . . .	1,156,084	1,138,220
Cash . . . . .	895,003	17,822
Other assets . . . . .	20,741	63,151
Variable annuity contract accumulation fund (see accompanying statement) . . . . .	338,094	256,255
	<u>\$ 3,242,245</u>	<u>\$ 1,575,077</u>
<b>LIABILITIES AND STOCKHOLDER'S INVESTMENT</b>		
Payable to parent company . . . . .	\$ 83,170	\$ 16,745
Other liabilities . . . . .	15,235	9,206
Variable annuity contract liabilities (see accompanying statement) . . . . .	338,094	249,931
	<u>436,499</u>	<u>275,882</u>
Mandatory securities valuation reserve	389,961	172,685
Stockholder's investment:		
Capital stock, \$5 par value; 200,000 shares authorized and outstanding at December 31, 1966; 80,000 shares authorized and outstanding at December 31, 1965 . . . . .	1,000,000	400,000
Paid-in surplus . . . . .	1,798,800	798,800
Earned surplus (deficit) . . . . .	(383,015)	(72,290)
Total stockholder's investment . . . . .	<u>2,415,785</u>	<u>1,126,510</u>
	<u>\$ 3,242,245</u>	<u>\$ 1,575,077</u>

See accompanying notes.



# Annuity Insurance Company

## SUMMARY OF OPERATIONS

(Unaudited)

	<i>Period ended December 31,</i>	
	<i>1966</i>	<i>1965</i>
Income:		
Variable annuity contracts—deductions from contract purchase payments and fees for investment management and advisory services and mortality and expense guarantee . . . . .	\$ 15,883	\$ 5,935
Investment income—net of expenses . . . . .	38,554	2,822
Gain (loss) on sale of investments . . . . .	76,336	( 7,409)
Total . . . . .	<u>130,773</u>	<u>1,348</u>
Expenses of operation . . . . .	135,408	7,238
Net loss from operations . . . . .	<u>\$ ( 4,635)</u>	<u>\$ ( 5,890)</u>

## STATEMENT OF PAID-IN SURPLUS

Balance, January 1 . . . . .	\$ 798,800	\$ —
Amount paid in in excess of par value of capital stock issued . . . . .	1,000,000	800,000
Expenses of capital stock issued . . . . .	—	( 1,200)
Balance, December 31 . . . . .	<u>\$ 1,798,800</u>	<u>\$ 798,800</u>

## STATEMENT OF EARNED SURPLUS (DEFICIT)

Balance, January 1 . . . . .	\$ ( 72,290)	\$ —
Net loss from operations . . . . .	( 4,635)	( 5,890)
Unrealized appreciation (decline) in value of investment securities . . . . .	( 65,624)	135,080
Increase in mandatory securities valuation reserve . . . . .	(217,276)	(172,685)
Increase in non-admitted assets . . . . .	( 23,190)	( 28,795)
Balance, December 31 . . . . .	<u>\$ (383,015)</u>	<u>\$ ( 72,290)</u>

*See accompanying notes.*

# The Paul Revere Variable Annuity Insurance Company

## SCHEDULE OF INVESTMENTS

December 31, 1966

(Unaudited)

	<i>Par Value or Number of Shares</i>	<i>Cost*</i>	<i>Market Value</i>
<b>BONDS:</b>			
United States Treasury, 4 $\frac{1}{4}$ %	\$ 250,000	\$ 232,788	\$ 237,500
United States Treasury Bills...	100,000	99,535	99,535
Federal Land Bank, 5.60%....	500,000	500,000	500,000
		<u>832,323</u>	<u>837,035</u>
<b>COMMON STOCKS:</b>			
"Automatic" Sprinkler Corp. of America.....	5,000	104,500	130,000
Boeing Co.....	1,000	51,117	66,000
Columbia Broadcasting System, Inc.....	1,248.48	47,262	77,406
Eastman Kodak Co.....	500	50,620	64,500
General Electric Co.....	400	47,241	35,600
General Instrument Corp.....	2,040	50,492	95,880
Gulf & Western Industries, Inc.	3,500	123,828	119,000
International Business Machines Corp.....	154	52,284	57,288
International Rectifier Corp...	2,100	47,572	42,000
Kendall Co.....	1,000	46,093	36,000
Management Assistance, Inc...	1,600	58,831	22,400
Motorola, Inc.....	400	47,453	37,200
Sanders Associates, Inc.....	1,530	45,400	87,210
Tampax, Inc.....	400	49,200	48,000
United Aircraft Corp.....	600	52,806	49,200
United Fruit Co.....	3,000	110,102	81,000
Xerox Corp.....	300	50,567	59,400
Zenith Radio Corp.....	1,000	51,259	48,000
		<u>1,086,627</u>	<u>1,156,084</u>
Total.....		<u>\$ 1,918,950</u>	<u>\$ 1,993,119</u>

\*Amortized cost in the case of bonds.

See accompanying notes.



# The Paul Revere Variable Annuity Contract Accumulation Fund

## STATEMENT OF ASSETS AND LIABILITIES (Note 1)

(Unaudited)

	December 31,	
	1966	1965
<b>ASSETS</b>		
Common stocks at market . . . . .	\$214,124	\$101,538
Cash . . . . .	116,456	154,717
Other assets . . . . .	7,514	—
	<u>\$338,094</u>	<u>\$256,255</u>
<b>LIABILITIES</b>		
Variable annuity contract liabilities:		
Deferred contracts terminable by owner . . . . .	\$250,620	\$151,594
Currently payable contracts . . . . .	87,474	98,337
	<u>338,094</u>	<u>249,931</u>
Other liabilities . . . . .	—	6,324
	<u>\$338,094</u>	<u>\$256,255</u>

## STATEMENT OF VARIABLE ANNUITY CONTRACT LIABILITIES (Note 1)

Balance, January 1 . . . . .	\$249,931	\$ —
Additions:		
Purchase payments—net of deductions . . . . .	111,491	249,075
Dividend income . . . . .	3,255	—
Unrealized appreciation of investments . . . . .	—	905
Other credits . . . . .	7,020	—
Total additions . . . . .	<u>121,766</u>	<u>249,980</u>
Deductions:		
Payments to contract owners . . . . .	7,138	—
Investment management and advisory services fee, mortality and expense guarantee fee and miscellaneous expenses . . . . .	5,736	49
Realized capital loss—net . . . . .	11,079	—
Unrealized decline in value of investment securities . . . . .	9,650	—
Total deductions . . . . .	<u>33,603</u>	<u>49</u>
Balance, December 31 . . . . .	<u>\$338,094</u>	<u>\$249,931</u>

See accompanying notes.

# The Paul Revere Variable Annuity Contract Accumulation Fund

## SCHEDULE OF INVESTMENTS (Note 1)

December 31, 1966

(Unaudited)

	<i>Number of Shares</i>	<i>Cost</i>	<i>Market Value</i>
COMMON STOCKS:			
Public utilities—			
International Telephone & Telegraph Corp.	150	\$ 10,931	\$ 10,894
Industrial and miscellaneous—			
“Automatic” Sprinkler Corp. of America..	750	15,600	19,688
Boeing Co.....	150	9,949	9,844
Columbia Broadcasting System, Inc.....	204	8,681	12,546
Eastman Kodak Co.....	100	12,139	12,775
General Telephone & Electronics Corp.....	200	9,259	9,050
Gulf & Western Industries, Inc.....	400	14,020	13,700
International Rectifier Corp.....	630	14,068	12,521
Kendall Co.....	200	9,385	7,200
Litton Industries, Inc.....	154	10,360	12,532
Management Assistance, Inc.....	300	10,725	4,162
Motorola, Inc.....	75	11,974	6,975
Tampax, Inc.....	100	11,450	12,250
Texas Gulf Sulphur Co.....	100	11,200	10,575
United Aircraft Corp.....	100	8,241	8,162
United Fruit Co.....	400	14,498	10,700
Villager, Inc.....	500	10,350	12,875
White Motor Corp.....	200	8,354	8,300
Xerox Corp.....	50	10,247	9,875
Zenith Radio Corp.....	200	11,438	9,500
		211,938	203,230
Total.....		\$222,869	\$214,124

*See accompanying notes.*



# The Paul Revere Variable Annuity Insurance Company

## NOTES TO FINANCIAL STATEMENTS

December 31, 1966

(Unaudited)

1. The Insurance Company was incorporated on August 6, 1965, and received a Certificate of Authority on October 20, 1965, from the Commissioner of Insurance of Massachusetts which permits the Insurance Company to engage in the business of making variable annuity insurance contracts. On December 22, 1965, the Insurance Company established The Paul Revere Variable Annuity Contract Accumulation Fund, which is a registered open-end investment company under the Investment Company Act of 1940.

The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts. These practices vary from generally accepted accounting principles commonly followed by other types of enterprises in that organization expense in the amount of \$51,985, which is designated as a "Nonadmitted Asset," has been charged off against earned surplus (deficit).

2. The term "Admitted Assets" means the assets stated at values at which they are permitted to be reported to the respective domiciliary state regulatory authority for balance sheet purposes in the annual report in accordance with the rules and regulations of such regulatory authority. The term "Nonadmitted Assets" means such assets other than assets which are so permitted to be reported.
3. The Paul Revere Corporation has received a ruling from the Commissioner of Internal Revenue to the effect that the Insurance Company will be taxed as a life insurance company under the Internal Revenue Code of 1954 as amended. Accordingly, it will not be taxed as a "regulated investment company" under Subchapter M of the 1954 Code. The earnings of the Accumulation Fund will form a part of the taxable income of the Insurance Company and will not be taxed separately from the Insurance Company. The Company follows a policy of allocating to the Accumulation Fund the Fund's share, if any, of the combined Federal income tax payable based upon the amount of taxable income or loss applicable to the Fund.
4. During the year the aggregate cost of securities purchased in the Accumulation Fund amounted to \$237,713 and the cost of securities sold during the year was \$115,477.

# Coastline Financial Corporation

## CONSOLIDATED BALANCE SHEET

(Unaudited)

December 31,

### ASSETS

	1966	1965
Cash . . . . .	\$ 734,556	\$ 2,328,232
United States Government securities, at cost . . . . .	2,094,852	926,151
Real estate mortgage loans receivable . . . . .	50,838,221	49,705,287
Investment in capital stock of Federal Home Loan Bank, at cost . . . . .	520,400	520,400
Accrued interest receivable . . . . .	298,485	287,638
Properties held for sale or investment, at cost . . . . .	715,527	1,150,414
Property, plant and equipment, at cost less accumulated depreciation . . . . .	3,800,685	3,333,582
Equity in net assets of unconsolidated subsidiary (Notes 1 and 2) . . . . .	711,131	—
Excess of investment in subsidiary over net assets acquired at date of acquisition (Note 1) . . . . .	147,516	—
Other assets . . . . .	657,371	542,797
	<u>\$ 60,518,744</u>	<u>\$ 58,794,501</u>

### LIABILITIES AND STOCKHOLDER'S EQUITY

Savings accounts . . . . .	\$ 38,317,651	\$ 37,561,661
Notes payable:		
Parent . . . . .	10,225,000	9,725,000
Advances from Federal Home Loan Bank, secured by assignment of mortgage loans . . . . .	5,911,000	6,244,500
Other . . . . .	100,964	100,651
Undisbursed loan funds . . . . .	382,720	732,930
Accrued interest on notes payable . . . . .	109,359	45,664
Federal income tax payable . . . . .	122,492	136,629
Deferred fees and discounts on loans . . . . .	100,095	88,800
Other liabilities . . . . .	135,583	200,766
Total liabilities . . . . .	<u>55,404,864</u>	<u>54,836,601</u>
Stockholder's equity:		
Common stock, no par value; 50,000 shares authorized, 47,660 shares issued and outstanding at December 31, 1966 and 37,500 shares at December 31, 1965 (Notes 3 and 4) . . . . .	4,566,000	3,550,000
Retained earnings . . . . .	547,880	407,900
Total stockholder's equity . . . . .	<u>5,113,880</u>	<u>3,957,900</u>
	<u>\$ 60,518,744</u>	<u>\$ 58,794,501</u>

See accompanying notes.



## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

(Unaudited)

	<i>Year ended December 31,</i>	
	<i>1966</i>	<i>1965</i>
<b>REVENUES:</b>		
Interest on loans . . . . .	\$ 3,364,633	\$ 3,072,806
Fees and service charges . . . . .	214,651	396,859
Interest and dividends on investments . . . . .	154,059	114,732
Other income . . . . .	9,010	9,631
	<u>3,742,353</u>	<u>3,594,028</u>
<b>EXPENSES:</b>		
Interest on savings accounts . . . . .	1,879,373	1,672,441
Other interest . . . . .	852,085	489,788
General and administrative . . . . .	697,880	664,149
	<u>3,429,338</u>	<u>2,826,378</u>
Income before federal income tax . . . . .	313,015	767,650
Provision for federal income tax . . . . .	61,415	149,803
	<u>251,600</u>	<u>617,847</u>
Amortization of excess cost of investment in subsidiaries (Note 1) . . . . .	—	(209,947)
Equity in net loss of unconsolidated subsidiary since date of acquisition (Note 1) . . . . .	(111,620)	—
Net income . . . . .	<u>139,980</u>	<u>407,900</u>
Retained earnings at beginning of year . . . . .	407,900	—
Retained earnings at end of year . . . . .	<u>\$ 547,880</u>	<u>\$ 407,900</u>

*See accompanying notes.*

# Coastline Financial Corporation

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1966

(Unaudited)

### 1. Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all its wholly-owned subsidiaries, except for Phelan Finance Corp. which was acquired in June 1966. The Company carries its investment in Phelan at its equity in such subsidiary's net assets and accordingly has included Phelan's net loss since date of acquisition amounting to \$111,620 in the accompanying statement of income. The excess of cost of investment in Phelan over its net assets at date of acquisition of \$147,516 has been included in the

accompanying balance sheet. The Company presently does not intend to amortize such excess cost since, in its opinion, there has been no diminution in value.

The Company's investment in other subsidiaries exceeded its equity in their net assets at date of acquisition and such excess cost was amortized by charges against net income in prior years, the remaining balance of \$209,947 having been amortized in 1965.

### 2. Phelan Finance Corp.

Condensed financial statements of Phelan Finance Corp. at December 31, 1966 are as follows:

#### ASSETS

##### Current assets:

Cash.....		\$ 1,463,903
Instalment notes receivable (including amounts due after one year).....	\$ 15,147,805	
Less:		
Unearned discount.....	1,697,954	
Allowance for losses.....	606,229	
	<u>2,304,183</u>	12,843,622
Refundable income taxes.....		257,022
Prepaid expenses.....		91,648
		<u>14,656,195</u>
Total current assets.....		
Furniture, equipment and leasehold improvements at cost, less accumulated depreciation		166,377
Unamortized debt expense.....		89,618
		<u>\$ 14,912,190</u>

#### LIABILITIES AND STOCKHOLDER'S EQUITY

##### Current liabilities:

##### Notes payable:

Banks.....	\$ 4,745,000
Other.....	500,000
Current portion of long-term debt.....	620,000
	<u>5,865,000</u>
Other current liabilities.....	136,059
	<u>6,001,059</u>
Total current liabilities.....	6,001,059
Long-term debt (Note A).....	6,050,000

##### Stockholder's equity:

##### Capital stock (Note B):

Preferred.....	\$ 2,150,000	
Common.....	254,223	
Paid in surplus.....	1,024,878	3,429,101
	<u></u>	
Less accumulated deficit:		
Balance at date of acquisition.....	456,350	
Net loss since date of acquisition.....	111,620	567,970
	<u></u>	
Total stockholder's equity.....		2,861,131
		<u>\$ 14,912,190</u>

See notes to Phelan Finance Corp. on following page.



## NOTES

### A. Long-term debt

At December 31, 1966 long-term debt consisted of:

Senior notes— $5\frac{5}{8}\%$ to $6\frac{1}{4}\%$ , maturing annually to 1975.....	\$4,030,000
Senior subordinated notes— $6\frac{1}{8}\%$ to $6\frac{1}{2}\%$ , maturing annually to 1975.....	1,340,000
Junior subordinated notes— $6\frac{1}{2}\%$ to 7%, maturing annually to 1974.....	800,000
Capital notes (subordinated)— $6\frac{5}{8}\%$ , maturing annually 1970 to 1980.....	500,000
	<u>6,670,000</u>
Less installments due within one year included in current liabilities.....	620,000
	<u><u>\$6,050,000</u></u>

The Paul Revere Life Insurance Company owns \$760,000 of the above long-term debt.

### B. Capital-stocks

Details of capital stocks are as follows at December 31, 1966:

	<u>Shares</u>
<i>Preferred</i>	
Cumulative—par value \$100 a share:	
First:	
Authorized (issuable in series).....	<u>20,000</u>
Outstanding:	
$6\frac{1}{2}\%$ series A.....	2,000
$6\frac{1}{4}\%$ series B.....	2,500
$6\frac{1}{4}\%$ series C.....	3,000
7% series D (convertible).....	7,500
Junior—6%—authorized and outstanding.....	<u>6,500</u>
<i>Common</i>	
Par value \$.25 a share:	
Authorized.....	2,000,000
Issued and outstanding.....	1,016,890

On June 29 and 30, 1966 all of the then outstanding common shares were acquired by Coastline Financial Corporation. On July 19, 1966 an additional 700,000 shares were issued to Coastline for \$700,000 cash.

In December 1966 Phelan issued 7,500 shares of First Preferred Stock 7% series D to The Paul Revere Life Insurance Company (an affiliate of Coastline) for \$750,000 cash. All of the outstanding First Preferred Stock of all series is owned by Paul Revere Corp. or its subsidiary Paul Revere Life Insurance Company.

### 3. Stock options

Options to purchase 1,875 shares of common stock of the Company at \$100 per share were granted to an employee in September 1960 under a restricted stock option plan. Options became exercisable for the purchase of 375 shares per year from 1961 to 1965 and the options expire on Septem-

ber 15, 1967. No options have been exercised to date.

### 4. Common Stock

In June 1966 the Company issued 10,160 shares of common stock to its parent, The Paul Revere Corp., for \$1,016,000 cash.

## BALANCE SHEET

(U.S. Dollars)

(Unaudited)

	December 31,	
	1966	1965
<b>ASSETS</b>		
Cash . . . . .	\$ 431,642	\$ 545,679
Certificates of deposit . . . . .	1,850,000	—
Marketable securities at cost (market at December 31, 1966—\$6,908,054)	7,011,446	6,985,851
Mortgage loans receivable . . . . .	66,681,690	64,188,923
Office premises, equipment and leasehold improvements at cost, net of accumulated depreciation and amortization . . . . .	177,192	146,576
Other assets . . . . .	558,286	414,978
	<u>\$ 76,710,256</u>	<u>\$ 72,282,007</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits including accrued interest . . . . .	\$ 12,918,741	\$ 14,852,839
Debentures including accrued interest . . . . .	52,559,689	47,100,603
Dividends payable . . . . .	92,500	92,500
Canadian income taxes . . . . .	376,340	232,277
Miscellaneous . . . . .	125,976	113,565
Total liabilities . . . . .	<u>66,073,246</u>	<u>62,391,784</u>
Stockholders' equity:		
Capital stock, \$10 par value; 420,000 shares authorized, 250,000 shares issued and outstanding . . . . .	2,312,500	2,312,500
Retained earnings:		
Investment and mortgage reserves (Note 1) . . . . .	2,461,242	2,266,992
General reserve . . . . .	5,781,250	5,226,250
Unappropriated . . . . .	82,018	84,481
	<u>8,324,510</u>	<u>7,577,723</u>
Total stockholders' equity . . . . .	<u>10,637,010</u>	<u>9,890,223</u>
	<u>\$ 76,710,256</u>	<u>\$ 72,282,007</u>

See accompanying notes.



# Debenture Company

## STATEMENT OF INCOME

(U.S. Dollars)

(Unaudited)

	<i>Year ended December 31,</i>	
	<i>1966</i>	<i>1965</i>
Revenues:		
Interest on loans . . . . .	\$ 4,752,548	\$ 4,499,113
Investment income . . . . .	382,178	352,574
Other income . . . . .	73,630	42,103
	<hr/> 5,208,356	<hr/> 4,893,790
Expenses:		
Interest on deposits and debentures . . . . .	3,198,060	2,957,775
Other operating expenses . . . . .	542,933	544,949
	<hr/> 3,740,993	<hr/> 3,502,724
Income before income tax . . . . .	1,467,363	1,391,066
Provision for income taxes . . . . .	628,076	616,975
Net income . . . . .	<hr/> 839,287	<hr/> 774,091
Appropriated to:		
General reserve . . . . .	555,000	508,750
Investment and mortgage reserve . . . . .	194,250	157,250
	<hr/> 749,250	<hr/> 666,000
Unappropriated net income . . . . .	<hr/> <hr/> \$ 90,037	<hr/> <hr/> \$ 108,091

*See accompanying notes.*

# The Ontario Loan and Debenture Company

## STATEMENT OF RETAINED EARNINGS

(U.S. Dollars)

(Unaudited)

	Year ended December 31,	
	1966	1965
Investment and mortgage reserve (Note 1):		
Balance at beginning of year . . . . .	\$ 2,266,992	\$ 2,109,742
Appropriation from net income . . . . .	194,250	157,250
Balance at end of year . . . . .	2,461,242	2,266,992
General reserve:		
Balance at beginning of year . . . . .	5,226,250	4,717,500
Appropriation from net income . . . . .	555,000	508,750
Balance at end of year . . . . .	5,781,250	5,226,250
Unappropriated:		
Balance at beginning of year . . . . .	84,481	68,890
Net income after appropriations . . . . .	90,037	108,091
	174,518	176,981
Cash dividends, \$.25 per share . . . . .	92,500	92,500
Balance at end of year . . . . .	82,018	84,481
Total retained earnings . . . . .	\$ 8,324,510	\$ 7,577,723

## NOTES TO FINANCIAL STATEMENTS

December 31, 1966

(Unaudited)

### I. Investment and Mortgage Reserves

Financial institutions are required or allowed by regulatory authorities and taxing agencies to provide reserves for losses on investments which are not related to amounts of losses actually anticipated. In the United States, it is customary for reserves of this nature to be included in the stockholders' equity section of the balance sheet whereas in Canada this type of reserve is normally deducted from assets. Consequently, investment and mortgage reserves which were deducted from the applicable assets and charged against income in the Company's published report in Canada are shown in the accompanying balance sheet under stockholders' equity and/or appropriations after net income.

In computing income taxes, appropriations to the mortgage reserve are deductible in arriving at taxable income. Accordingly, stockholders' equity includes appropriations to this reserve totaling \$1,895,000 for which no provision for income tax has been made. If in the future this reserve is used for any purpose other than absorbing losses an income tax liability will be imposed thereon.

### 2. Conversion of Canadian currency amounts

Canadian dollar amounts have been converted at an exchange rate of .925.







## **The Paul Revere Corporation**

Worcester, Massachusetts 01608